Brief Summary of the Budget Control Act of 2011

Ten year discretionary caps with sequester enforcement

Caps: the Budget Control Act of 2011 (BCA) sets caps on discretionary spending for FY 2012 – FY 2021 (all years noted below are fiscal years):

- 2012 and 2013: budget authority (BA) and outlay caps for two categories: security and non-security;
- 2014 – 2021: combined caps for security and non-security categories.

The House and Senate appropriations committees will have to allocate funds in the annual appropriations process to all of the discretionary accounts within these caps. The caps are enforced through an annual budget sequestration process to assure that total spending is within these caps.

Special provisions: the BCA incorporates several special provisions related to the caps. It:

- does not apply caps to "overseas contingency operations" (Afghanistan and Iraq);
- adjusts caps, within prescribed limits, for increases in "program integrity;" initiatives at SSA for disability reviews, and at CMS for Health Care Fraud and Abuse Control accounts;
- adjusts caps for designated emergency requirements and disaster relief; and
- establishes separate legislative provisions for Pell grants.

CBO estimates: The Congressional Budget Office (CBO) estimates that, over the ten years from 2012 to 2021, the discretionary caps will reduce outlays by a total of $917 billion when compared with its adjusted March baseline for discretionary spending. That includes $756 billion in reductions in outlays for discretionary programs (a 5.9 percent reduction), along with associated interest savings and net effects of the program integrity and education initiatives.

Table 1. Effect of FY 2012 -2021 Discretionary Spending Caps on Total Outlays (dollars in billions)

Item	**Impact**
Adjusted March 2011 Baseline, Discretionary Spending	$12,760
Discretionary caps	$12,004
Impact	
Discretionary caps	-$ 756
Percent reduction in discretionary outlays over 10 years	-5.9%
Program integrity/education initiatives	-$ 5
Debt service impact	-$ 156
Total	**-$ 917**

Source: CBO, August 1, 2011. Proposed caps when compared with the January, 2011 baseline would save $935 billion instead of the $756 billion shown.

In addition to the cumulative ten-year impact, the CBO estimate provides a year-by-year review of the discretionary caps compared with the baseline.

- Discretionary spending under the new caps will increase a total of three percent over this ten year period, compared with 9.8 percent growth under the baseline.
- The reduction in discretionary spending compared with the baseline is 2.1 percent in 2012, increasing to a reduction of 9.2 percent below the baseline level by 2021.

Table 2. Effect of Discretionary Spending Caps on Discretionary Outlays FY 2012 and FY 2021 (dollars in billions)				
			Change, 2012-2021	
	2012	**2021**	**Dollars**	**Percent**
Adjusted March 2011 Baseline,	$1,267	$1,391	+$124	+9.8%
Proposed Discretionary Caps	$1,241	$1,278	+$37	+3%
Impact of caps				
Dollars	-$26	-$113		
Percent change	-2.1%	-9.2%		
Source: CBO, August 1, 2011				

Vote on Balanced Budget Amendment

The BCA requires a vote on balanced budget amendment to the Constitution sometime between October 1 and December 31, 2011, with expedited procedures for consideration.

Debt Ceiling Disapproval Process

The BCA provides for modification of the debt ceiling by the President and a process for expedited Congressional disapproval of those modifications. The following summarizes the current debt ceiling and the two levels of modification:

Prior debt ceiling:	$14.294 trillion
Initial modification:	+$ 0.9 trillion
Second modification:	+$ 1.2 to $1.5 trillion

The combined increase of $2.1 to $2.4 trillion is projected to be sufficient to require no additional action on the debt ceiling until after the 2012 elections.

<u>Initial $900 billion:</u> If debt is within $100 billion of the debt limit, the President submits written certification to Congress that further borrowing is required. The Secretary of the Treasury is then authorized to borrow an additional $900 billion, in two stages, subject to Congressional disapproval.

- The Secretary can immediately borrow $400 billion.
- If Congress fails to enact a joint resolution of disapproval (see below), the Secretary may borrow the remaining $500 billion. If Congress enacts a joint

resolution of disapproval and the President signs it, or has his veto overridden, then there is a mandatory sequester of spending of an amount equal to the $400 billion borrowed.

Additional increase of $1.2 to $1.5 trillion: After the initial increase of $900 billion, and if the debt increases to within $100 billion of the new limit, the President again submits a written certification to Congress that further borrowing is required. The Secretary of the Treasury is then authorized to borrow an additional $1.2 - $1.5 trillion:

- The minimum increase is $1.2 trillion.
- If a Constitutional amendment to balance the budget has been submitted to the States for ratification, the increase is $1.5 trillion.
- If the Joint Committee (see below) has approved deficit reduction of more than $1.2 trillion, the increase in the debt limit is the amount of the deficit reduction, but no more than $1.5 trillion.

Resolution of disapproval: The Congress can consider a resolution of disapproval of the increase in the debt limit, under expedited procedures. In general, the resolution must be approved within 50 days of receipt of the President's certification of the need for the initial $900 billion, and within 15 days of receipt of the President's certification of the need for the second $1.2 to $1.5 trillion.

Budget Goal, Joint Committee and Sequestration

In addition to the initial ten-year caps on discretionary spending, the BCA provides for:

- A goal of $1.2 to $1.5 trillion in additional deficit reduction over ten years from 2012-2021;
- A Congressional Joint Select Committee on Deficit Reduction which is charged with achieving $1.5 trillion in deficit reduction, with a statutory deadline of enactment by January 15, 2012; and
- A sequester of automatic reductions in spending of $1.2 trillion if the Joint Committee does not achieve at least $1.2 trillion in deficit reduction.

Goal: The goal for the Joint Committee is $1.5 trillion in deficit reduction over the ten year period, but if they reach $1.2 trillion in deficit reduction (including interest savings), enacted into law, there is no sequestration. Sequestration is designed to achieve $1.2 trillion in deficit reduction when combined with any deficit reduction achieved by the Committee. For example, if $1 trillion in deficit reduction is enacted based on the Committee's recommendations, then sequestration would have to achieve the final $0.2 trillion.

Joint Committee: The Joint Select Committee on Deficit Reduction is established, with 12 members who are sitting members of the House and Senate: three each appointed by the Speaker and Minority Leader of the House, and the Majority and Minority Leaders of the Senate. A majority (seven) is required to report recommendations. The timetable for the Committee is set out below.

Table 3. Deadlines for Joint Select Committee on Deficit Reduction (All deadlines noted are "no later than")	
Members appointed (14 days after enactment)	08/16/11
Initial meeting (45 days after enactment)	09/16/11
Committees may make recommendations to Joint Committee	10/14/11
Joint Committee votes	11/23/11
Joint Committee submits report, legislative language (if approved)	12/02/11
Deadline for reports by Committees of jurisdiction	12/09/11
Vote on final passage in each body	12/23/11
Deadline for enactment (for fall-back sequester)	01/15/12
Joint committee terminates	01/31/12

The recommendations of the Committee would be considered under expedited procedures in the House and the Senate.

The Joint Committee's target is explicitly "deficit reduction," which implies that both revenues and spending can be considered, subject to the obvious political constraints. There is, however, debate over which baseline will be used (it appears to be subject to the judgment of the Chairs of the Budget Committees). The baseline is important because the "current law" baseline assumes expiration of the tax cuts originally enacted during the Bush Administration and extended through the end of 2012 during the Obama Administration. As a result, the increase in revenue associated with their automatic expiration is already built into the baseline. CBO also sets out a more plausible "current policy" baseline which assumes that the Congress will extend those tax cuts. The implications of the use of alternative baselines are now being debated.

<u>Sequestration</u>

If, by January 15, 2012, recommendations of the Joint Committee have not been enacted into law achieving at least $1.2 trillion in deficit reduction, mandatory sequestration would be implemented by OMB to secure the difference between the Joint Committee's deficit reduction (if any) and that $1.2 trillion target.

In general, the required sequestration savings:

- would be spread evenly over the nine years 2013-2021;
- would include interest savings (sequestration is required to save 82 percent of the target amount, with the remainder coming from the associated savings in interest);
- would come half from defense (mandatory and discretionary) spending and half from nondefense spending (mandatory and discretionary);
- would be implemented using prior Statutory Pay-As-You-Go (PAYGO) rules and Budget Act exemptions and limits from those rules.

The procedures specifically cross-reference the existing exemptions and special rules for a sequester that were most recently amended in the 2010 PAYGO legislation (P.L. 111-139.) Major areas of spending exempt from the sequester would include:

- Refundable income tax credits (this would presumably include the new premium tax credits under the Affordable Care Act, but would not include the subsidies for cost sharing);
- Grants to States for Medicaid;
- Children's Health Insurance Fund;
- Payments to Health Care Trust Funds;
- Vaccine Injury Compensation and Trust fund;
- Government Payment for various Federal Annuitants and Employees Health Benefits;
- Medicare Part D Low income subsidies, and the part D catastrophic subsidy;
- Payments to States for subsidies for certain low income Medicare beneficiaries (Qualified Individuals);
- Social Security benefits;
- Veterans Programs; and
- Interest.

Medicare payments are not exempt from the sequester, but are limited to reductions of no more than two percent for a fiscal year.

> *It is important to note that these exemptions and special limits apply only in the event that the Joint Committee fails to achieve $1.2 trillion in deficit reduction and a sequester is required. The Joint Committee itself can recommend changes in any and all federal program spending, and revenues, to achieve deficit reduction. Most observers fully expect the Joint Committee to attempt to address federal health programs as a major component of their deficit reduction effort.*

<u>CBO estimate</u>: CBO cannot score the potential work of the Joint Committee because the policies are not yet reported. Instead, it scores the default sequestration of $1.2 trillion, which, combined with the $917 billion savings from the ten-year discretionary caps, yields a total of $2.117 trillion in deficit reduction.

<u>Potential impact of the sequestration</u>: Governmental estimates of the sequestration are not yet available, but the Center on Budget and Policy Priorities (CBPP) issued a report setting out how the potential sequestration might occur.[1]

The Center's estimate assumes that the full $1.2 trillion sequestration would take place. The timing of the sequestration applies to fiscal years 2013-2021, a nine year period.

[1] Richard Kogan, *How the Potential Across-the-Board Cuts in the Debt Limit Deal Would Occur,* Center on Budget and Policy Priorities, August 4, 2011.

- The $1.2 trillion total is translated into a required annual sequestration, over the nine years (2013 – 2021) in the law, and assuming interest savings under the terms dictated in the law.
- The result is that a total of $984 billion must be sequestered over the nine years, with assumed interest savings of $216 billion.
- That translates into $110 billion per year (rounded for ease of further calculations), which is then further split under the law into one-half defense programs ($55 billion) and one half non-defense ($55 billion).

Table 4. Computing Total Annual Amount Sequestered, Assuming Full Sequester of $1.2 Trillion From 2013-2021 (in billions)	
Totals (FY 2013-2021)	
Total amount sequestered, 2013-2021	$1,200
Assumption of debt service savings (18% set by the law)	-$216
Total amount to be sequestered over nine years 2013-2021	$984
Defense and non-defense shares (50/50 split)	
Non-defense	$492
Defense	$492
Annual amounts	
Annual amount sequestered (total/9 years from 2013-2021 - rounded)	$110
Annual defense sequestration	$55
Annual non-defense sequestration	$55
Source: CBPP, August 4, 2011	

The Center goes on to estimate a top-line program impact of the $55 billion sequester for 2013. As noted above, a substantial portion of mandatory spending is exempt from the sequester, including Social Security, Medicaid, CHIP, SNAP (formerly known as the Food Stamp Program, Child Nutrition, Supplemental Security Income (SSI), refundable tax credits such as the EITC and the new individual health insurance tax credits under the ACA, along with Veterans' benefits and federal retirement programs. Medicare can be sequestered by no more than two percent.

> *As a result, CBPP estimates a 2013 sequester of about nine percent on the non-exempt mandatory and discretionary non-defense programs (along with the two percent reduction for Medicare).*

The Center's assessment, while focused on the domestic programs, notes that the $55 billion share of the sequester borne by the defense budget would result in a nine percent reduction in funding in 2013 for those programs, if the President exercises his option to exclude military personnel accounts, and a seven percent reduction if he includes those accounts. As with the non-defense sequester, all of the amounts are on top of the caps (and potential sequester) across all discretionary programs dictated by the initial ten-year cap on discretionary spending (see Tables 1 and 2).

Table 5. Computing Annual Amount Sequestered for Domestic Programs, 2013, Assuming Full Sequester of $1.2 Trillion From 2013-2021 (in billions)	
Domestic (Non-Defense) Share	$55
Sequester, mandatory spending programs	
Medicare limited to 2% (because of underlying Medicare growth, the Medicare amount would increase in future years)	$10
Other nonexempt mandatory programs (such as farm price supports)	$ 7
Total, mandatory sequester	$17
Remaining sequester allocated to discretionary programs	$38
Estimated percentage sequester in non-exempt mandatory, and discretionary spending, 2013	- 9%
Defense Share	$55
Percent sequester if military personnel funding exempt (President's option)	-9%
Percent sequester if military personnel included	-7%
Source: CBPP, August 4, 2011	

In general, across non-defense and defense programs, as the underlying baseline spending increases, even with these budget constraints, the percentage reduction in spending required to achieve the fixed annual sequester target of $55 billion would decline over nine year period. As a result, the estimated sequester of nine percent for 2013 would likely decline in future years.

The Center notes that the amount of sequestered funds that will be absorbed by mandatory programs, including Medicare, will increase over the nine-year period as the underlying base of spending for those programs continues to grow faster than discretionary spending. For Medicare, while the two percent limit on Medicare sequestration remains throughout the nine year period, the total amount of Medicare funding sequestered would increase (again assuming the full sequestration of $1.2 trillion).

Medicare is estimated by the Center to absorb about $10 billion of the $55 billion sequestration in 2013. A two percent Medicare sequestration would increase to about $19 billion by 2021 under the current Medicare baseline. In total, Medicare would be subject to a sequestration of about $137 billion over the nine year period. That is about 28 percent of the total of $492 billion sequestration allocated to non-defense programs, and 14 percent of the total $984 billion sequestration.[2] It is important to note that these Medicare estimates are upper limits, as they do not exclude from the Medicare spending base certain amounts that are by law exempt from the sequestration, such as the Low Income Subsidies (LIS) under the Medicare prescription drug program.

[2] Medicare calculations for 2013-2021 by HPA, based on CBO March, 2011 baseline.